



POLICIES, RULES AND REGULATIONS	
Title: DEBT MANAGEMENT POLICY	
Policy No.: Appendix M	Section Nos.: 1.0 – 1.4
Approval Date: 05/2009	Effective Date: 05/2009
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1.0 INTRODUCTION

The District's overriding goal in issuing debt is to respond to and to provide for the infrastructure and capital project needs of its customers while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The District issues debt instruments, administers District-held debt proceeds and makes debt service payments, acting with prudence and diligence, and attention to prevailing economic conditions. This policy documents the District's goals for the use of debt instruments and provides guidelines for the use of debt for financing the District infrastructure and project needs.

The District believes that debt is an equitable means of financing projects and represents an important means of providing for the infrastructure and project needs of the District's customers. Debt will be used to finance projects (i) if it meets the District's goal of equitable treatment of all customers, both current and future, (ii) if it is the most cost- effective means available to the District, and (iii) if it is fiscally prudent, responsible, and diligent under the prevailing economic conditions. The pay-as-you go method of using current revenues to pay for long-term infrastructure and other projects is often considered the preferred means of financing when sufficient revenues and reserves can be available and long-term borrowing rates are higher than expected cash reserve fund earnings. The District will endeavor to pay for all infrastructure and other projects from a combination of current revenues, available reserves, and prudently issued debt.

The District's debt management policy is designed to:

- Establish parameters for issuing debt;
- Provide guidance to decisions makers:
 - with respect to all options available to finance infrastructure and other capital projects;
 - so that the most prudent, equitable and cost effective method of financing can be chosen;
- Document the objectives to be achieved by staff both prior to issuance and subsequent to issuance;
- Promote objectivity in the decision-making process; and
- Facilitate the financing process by establishing important policy decisions in advance.

The District will adhere to the following legal requirements for the issuance of public debt:

- The state law which authorizes the issuance of the debt;
- The federal and state laws which govern the eligibility of the debt for tax-exempt



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status;

- The federal and state laws which govern the issuance of taxable debt;
- The federal and state laws which govern disclosure, sale and trading of the debt.

2.0 GENERAL MANAGEMENT POLICIES

The District will provide for a periodic review of its financial performance, and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting and rate setting process.

In recognition of periodic changes in the cost of providing service to system users, service costs and fees will be reviewed annually and adjusted commensurately.

The District will present any proposed adjustments to existing rates, fees and charges at public meetings, and will consider recommendations and input from the public as it relates to such proposed changes.

All District funds will be invested according to the Annual Statement of Investment Policy of the District.

Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget.

The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible rates.

3.0 FINANCIAL MANAGEMENT POLICIES

The District utilizes a Comprehensive Master Plan to determine its long-term infrastructure and other project needs for the next twenty years. The District's Master Plan is updated at least every five years or more frequently when necessary. The District evaluates each project in relation to established levels of reserves, current rate structure, expected asset life/replacement timeline, and available revenue sources to ensure that adequate financial resources are available to support the District's financial obligations.

The District's Debt Management Policies, Goals and Policies for Community Facilities Districts, Board Designated Fund Balance Policies, Revenue and Expenditure Policies and the Investment Policy are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such the following policies outline the District's approach to debt management.

The District will evaluate financing for each capital project on a case-by-case basis.

The District will seek to pay for all capital projects from current revenues and available reserves prior to or in combination with the use of debt.



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The District will seek to issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected fixed revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such fixed revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

Debt issuance for a capital project will not be considered unless such issuance has been incorporated into the District Comprehensive Master Plan.

User Fees and Water Rates will be set at adequate levels, which are fair and nondiscriminatory, to generate sufficient revenues to pay all Operating and Maintenance costs, to maintain sufficient operating reserves, and to pay debt service costs, if necessary.

Property Assessments and Connection Fees will be maintained at a level sufficient to finance a portion of growth-related capital costs and cover related annual debt service requirements.

Property Assessments also will be utilized to finance a portion of replacement costs and related annual debt service payments.

4.0 DEBT AND CAPITAL MANAGEMENT POLICIES

The following policies formally establish parameters for evaluating, issuing, and managing the District's debt. The policies outlined below are not intended to serve as a list of rules to be applied to the District's debt issuance process, but rather to serve as a set of guidelines to promote sound financial management.

In issuing debt, the District objectives will be to:

- Achieve the lowest cost of capital
- Ensure ratepayer equity
- Maintain high credit ratings and access to credit enhancement
- Preserve financial flexibility

4.1 Standards for Use of Debt Financing

When appropriate, the District will use long-term debt financing to: achieve an equitable allocation of capital costs/charges between current and future system users; to provide more manageable rates in the near and medium term; and to minimize rate volatility.

For growth-related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system and spread the costs evenly over time.



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The District shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life.

Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

4.2 Financing Criteria

Each debt issuance should be evaluated on an individual basis within the framework of the District's long-term financial plan, as well as within the context of the District's overall financing objectives and current market conditions.

The District will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

Credit Enhancement — The District will consider the use of credit enhancement on a case-by-case basis. Only when clearly demonstrable savings can be realized shall credit enhancement be utilized.

Cash-Funded Reserve vs. Surety — The District may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous. The District may permit the use of guaranteed investment agreements for the investment of reserve funds pledged to the repayment of any District debt when it is approved by the Board of Directors.

Call Provisions — In general, the District's securities should include optional call provisions. The District will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option.

Additional Bonds Test/Rate Covenants is established to efficiently balance a strong credit rating and the cost of such covenants to rate payers. The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and these policies.

Short-Term Debt — The District may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future bonding capacity.

Use of Variable Rate Debt - The District will not issue variable interest rate debt unless: (i) the proposed debt, (a) can be converted to a fixed rate, or (b) is hedged (the District has an offsetting position, or investment to insulate itself from adverse interest rate changes either for an interim period, or to maturity) by use of a put-type mode, swap agreement or hedging mechanism (e.g., interest



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rate cap), or (ii) all outstanding (unhedged) variable rate debt, including the proposed new variable debt, does not exceed 100% of the District's "hedge position" in aggregate. For this purpose, the District's hedge position will be calculated as the District's unrestricted cash reserves multiplied by **130%**.

Use of Swaps & Derivatives - The use of any swap agreement in conjunction with the issuance or management of debt instruments will be governed by the District's Swap Policy.

Investment of Bond Proceeds - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction, unless further restricted or limited in the District's Investment Policy. The District will seek to maximize investment earnings within the investment parameters set forth in the respective debt financing documentation. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing arbitrage/rebate position, and evaluating alternative debt structures and refunding savings on a "net" debt service basis, where appropriate.

4.3 Refinancing Outstanding Debt

The District shall have the responsibility to evaluate potential refunding opportunities presented by underwriting and/or financial advisory firms. The District will consider the following issues when analyzing potential refinancing opportunities:

Debt Service Savings — The District shall establish a target savings level equal to 3% of par refunded on a net present value (NPV) basis. This figure should serve only as a guideline; the District must evaluate each refunding opportunity on a case by-case basis, and must take into consideration:

- the time to maturity,
- size of the issue,
- current interest rate environment,
- annual cash flow savings
- the value of the call option.

The decision to take all savings upfront or on a deferred basis must be explicitly approved by the District's Finance and Audit Committee and Board of Directors.

Restructuring - The District may seek to refinance a bond issue on a non-economic basis, in order to restructure debt, to mitigate irregular debt service payments, accommodate revenue shortfalls, release reserve funds, comply with



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and/or eliminate rate/bond covenants, or terminate a swap.

Term/Final Maturity — The District may consider the extension of the final maturity of the refunding bonds in order to achieve a necessary outcome, provided that such extension is legal. The term of the bonds should not extend beyond the reasonably expected useful life of the asset being financed. The District may also consider shortening the final maturity of the bonds. The remaining useful life of the assets and the concept of inter-generational equity should guide these decisions.

Escrow Structuring - The District shall utilize the least costly securities available in structuring each escrow. A certificate will be required from a third party agent who is not acting as a broker-dealer, stating that the securities were purchased through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Series Securities (SLGS), and that the price paid was reasonable and within Federal guidelines.

When evaluating the economic viability of an economic versus legal defeasance, the District shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The District shall take all necessary steps to optimize the yield on its refunding escrows investments and avoid negative arbitrage.

4.4 Method of Issuance

The District will determine, on a case-by-case basis, whether to sell its bonds competitively through negotiation.

Competitive Sale — In a competitive sale, the District's bonds shall be awarded to the bidder providing the lowest true interest cost ("TIC"), as long as the bid adheres to requirements set forth in the official notice of sale.

Negotiated Sale — The District recognizes that some securities are best sold through negotiation. In consideration of a negotiated sale, the District shall assess the following circumstances:

- Issuance of variable rate or taxable bonds;
- Complex structures or credit considerations (such as non-rated bonds), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders unique/ proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process;



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Market volatility, such that the District would be better served by flexibility in the timing of its sale in a changing interest rate environment;

When an underwriter has identified new financing opportunities or presented alternative structures that financially benefit the District;

As a result of an underwriter's familiarity with the project/ financing, that enables the District to take advantage of efficiency and timing considerations.

Private Placement — From time to time the District may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

4.5 Market Communication, Debt Administration and Reporting Requirements

Rating Agencies — The Finance Manager shall be responsible for maintaining the District's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investment Service. The District may, from time to time, choose to deal with one, two, or all of these agencies as circumstances dictate.

In addition to general communication, the Finance Manager shall: (1) meet or confer with credit analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls with agency analysts in connection with the planned sale.

Board Communication — The Finance Manager shall include in an annual report to the Board of Directors feedback from rating agencies and/or investors regarding the District's financial strengths and weaknesses and recommendations for addressing any weaknesses.

Continuing Disclosure — The District shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year. The inability to make timely filings must be disclosed and would be a negative reflection on the District. While also relying on a timely audit and preparation of the District's annual report, the Finance Manager will ensure the District's timely filing with each Nationally Recognized Municipal Securities Information Repository.



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Record-Keeping — A copy of all debt-related records shall be retained at the District's offices. At minimum, these records shall include all official statements, bid documents, bond documents / transcripts, resolutions, trustee statements, leases, and title reports for each District financing (to the extent available). To the extent possible, the District shall retain an electronic copy of each document - preferably in pdf or CD-ROM format.

Arbitrage Rebate — The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Finance Manager shall ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.